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SIPDIS

SENSITIVE
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EUR/PPD (L. MCMANIS AND A. PIPKIN);
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SUBJECT: BERMUDA: AUDITORS GENERAL CALL ON POLICE TO INVESTIGATE
MISMANAGEMENT OF GOVERNMENT FUNDS

¶1. (U) Reports by both the current and former auditors general found evidence of massive mismanagement of government funds and recommended that police investigate four cases of overspending and/or lack of oversight and poor internal controls. A 2007/08 report by the former auditor general, Larry Dennis, presented in the House of Assembly on February 19 recommended that the police investigate the lack of fiscal control over a failed Faith-Based Tourism Initiative conducted under the auspices of the Minister of Tourism/Premier Ewart Brown to bring religious tourists to the Island. Brown had named Andre Curtis - a political supporter - to head the initiative, although Brown denied that bias played a role in his selection.

¶2. (U) Dennis also noted the complete breakdown of internal controls in the expenditure of USD 20.2 million by the former National Drug Commission over a five-year period, with evidence of fraudulent activity including payment of personal expenses. He said that records were "unbalanced, incomplete, unsupported and generally inadequate. Whether this was due to managerial incompetence or a purposeful unwillingness to maintain proper books of account, or an attempt to conceal improper conduct is unclear." In his report, Dennis called for a police investigation, and Finance Minister Paula Cox commented in a February 19 press release that her ministry had already facilitated a police investigation.

¶3. (U) Dennis' 2007/08 report follows earlier recommendations by new Auditor General Heather Jacobs Matthews, appointed in 2009, that police investigate huge cost overruns on two government projects. On February 1, she announced special reports on a new cruise ship terminal that almost doubled in cost and a new vehicle emissions testing facility that also far exceeded its budget. Matthews also warned about the overall fiscal challenges facing the Island, including a "weakening cash position, a substantial bank overdraft, expenditures outstripping revenue, increasing long-term debt and a growing deficit." In response to the Matthew's findings, Cox's February 19 press release stated, "Given concerns with the management and oversight of recent and specific capital projects, Government is moving already to further strengthen tendering and procurement practices, including ensuring that there is the appropriately provided expertise to ensure proper scoping and design of capital projects to reduce subsequent change orders that are often the cause of cost overruns."

Comment

14. (SBU) Governor Gozney told the Consul General on February 18 that the Police will investigate these allegations, although the police might need additional resources assigned to its Financial Crimes Unit. This is not the first time that auditors general have criticized the management of the people's purse. The Progressive Labor Party government will, however, be unable to continue allegations that the auditor's criticisms are racially motivated now that the auditor general's position is held by a black female instead of a white male. The auditor general's report does not seem to be politically motivated, although the effect might be to ensure that Premier Brown leaves office as expected in October. Premier Brown has withstood numerous allegations of improprieties, and we think he will weather this round of criticism as well.

SHELTON